

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SP-02 USIA-15 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03  
H-02 PA-02 PRS-01 CIAE-00 COME-00 FRB-01 INR-07  
NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 AGRE-00 /098 W  
-----061321Z 083410 /53

P 052130Z APR 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 0921

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS SECTION 1 OF 2 BRASILIA 2677

E.O. 11652: N/A

TAGS: EINV, EIND, ETRD, BR

SUBJECT: PRESIDENT GEISEL ANNOUNCES NEW MEASURES TO BENEFIT BRAZIL'S  
PRIVATE SECTOR, AND THEY WILL HAVE SOME INTERNATIONAL  
IMPLICATIONS

REF: (A) BRASILIA 2552, (B) 76 BRASILIA 5439

1. SUMMARY. PRESIDENT GEISEL HAS ANNOUNCED SEVERAL MEASURES DESIGNED TO IMPROVE THE CAPITALIZATION OF BRAZILIAN PRIVATE FIRMS AND TO HELP DEVELOP THE EQUITY CAPITAL MARKET. HE ALSO ANNOUNCED AN OUTLINE OF THE GOVERNMENT'S POLICY ON THE ROLE OF BRAZILIAN PRIVATE FIRMS IN DEVELOPMENT OF THE PRIORITY INDUSTRIAL SECTORS. COMMENTS FOLLOW BY SEPTEL. END SUMMARY.

2. THE LATEST AND MOST IMPORTANT MEASURES IN THE GEISEL ADMINISTRATION'S EFFORTS TO STRENGTHEN BRAZILIAN PRIVATE ENTERPRISE WERE ANNOUNCED IN BRASILIA, MARCH 30. (REF B DESCRIBES MEASURES ANNOUNCED LAST YEAR.) PRESIDENT GEISEL, SPEAKING BEFORE A GROUP OF 120 BRAZILIAN BUSINESSMEN WHO JOURNEYED TO BRASILIA TO WITNESS THE  
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SIGNING OF THE VARIOUS DECREES AND LAWS IMPLEMENTING THE PROGRAM, AFFIRMED THAT THE BRAZILIAN GOVERNMENT IS COOPERATING WITH BRAZILIAN PRIVATE ENTERPRISE IN SEEKING WAYS TO INCREASE ITS CAPITALIZATION AND TO RESERVE UNDEVELOPED AREAS ("EMPTY SPACES") IN THE ECONOMY FOR DEVELOPMENT BY PRIVATE BRAZILIAN INTERESTS. GEISEL CONCLUDED HIS SHORT REMARKS BY

STATING THAT THE GOVERNMENT INTENDED TO DEVELOP ADDITIONAL PROGRAMS IN THIS AREA AND WAS READY TO PARTICIPATE IN A CANDID DIALOGUE WITH BRAZILIAN ENTREPRENEURS.

3. THE SPECIFIC AIM OF MOST OF THE NEW RESOLUTIONS AND DECREES WAS TO CHANNEL MORE RESOURCES INTO THE BRAZILIAN EQUITY CAPITAL MARKET:

--A SPECIAL FUND WILL BE CREATED FROM PIS-PASEP REVENUES (A WORKERS' PROFIT-SHARING PROGRAM) TO BE USED FOR THE PURCHASE OF STOCKS AND CONVERTIBLE DEBENTURES. TO INSURE THAT ANY LOSSES THE FUND INCURS ARE NOT BORNE BY WORKERS THROUGH REDUCTION IN THEIR BENEFITS FROM PIS-PASEP, THE FEDERAL TREASURY WILL TRANSFER TO THE FUND ANY SURPLUS SHARES (I.E., SHARES IN EXCESS OF THOSE NECESSARY TO GUARANTEE MANAGERIAL CONTROL) THE GOVERNMENT HAS IN STATE CORPORATIONS. IN ADDITION, INCOME TAX REVENUES WHICH ARE ELIGIBLE FOR STOCK PURCHASES BUT ARE NOT USED (PRESUMABLY BECAUSE OF TAXPAYER IGNORANCE, OR IN SOME CASES, BECAUSE OF THE SMALL AMOUNTS INVOLVED) WILL BE TRANSFERRED TO THE FUND.

--THE PROCAP PROGRAM, WHICH REPASSES THE BNDE FUNDS TO INVESTMENT BANKS FOR THE UNDERWRITING OF EQUITY SHARE ISSUES, WAS GIVEN AN ADDITIONAL LINE OF CREDIT, ESTIMATED AT 2 BILLION CRUZEIROS (ABOUT US 150 MILLION DOLLARS). DURING 1977, MONETARY CORRECTION ON LOANS THROUGH THIS PROGRAM WILL BE LIMITED TO 20 PERCENT (AN IMPORTANT AND COSTLY SUBSIDY GIVEN BRAZIL'S CURRENT UNCLASSIFIED

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HIGH INFLATION; IN 1976, MONETARY CORRECTION WAS 38 PERCENT), WITH COSTS ABOVE THE 20 PERCENT LIMIT TO BE PAID BY THE GOVERNMENT. IN ORDER TO PARTICIPATE IN PROCAP, BRAZILIAN FIRMS MUST DISTRIBUTE AT LEAST 25 PERCENT OF THEIR NET PROFITS IN DIVIDENDS TO SHAREHOLDERS.

4. IN ADDITION TO THE MEASURES THAT AFFECT THE EQUITY CAPITAL MARKET, GEISEL SIGNED A CDE (ECONOMIC DEVELOPMENT COUNCIL) RESOLUTION THAT OUTLINES THE GOVERNMENT'S POLICY ON PARTICIPATION OF BRAZILIAN FIRMS IN THE DEVELOPMENT OF DYNAMIC INDUSTRIAL SECTORS, ESPECIALLY CAPITAL GOODS, BASIC INPUTS, AND MINERAL DEVELOPMENT. THE RESOLUTION CITES THE PETROCHEMICAL SECTOR, WITH ITS TRILATERAL PARTICIPATION OF FOREIGN, OFFICIAL, AND BRAZILIAN PRIVATE CAPITAL AS THE MODEL FOR THE MINERAL AND BASIC INPUT SECTORS. THE RESOLUTION IS SIMPLY A STATEMENT OF POLICY AND DOES NOT CONTAIN IMPLEMENTATION PROVISIONS. IT DOES, HOWEVER, SPECIFY CERTAIN NORMS FOR THESE PROJECTS IN-

CLUDING: A "REAL" TRANSFER OF TECHNOLOGY TO THE BRAZILIAN FIRM; GREATER RISK CAPITAL PARTICIPATION BY THE FOREIGN PARTNER; AND GOVERNMENT PARTICIPATION ONLY WHEN ABSOLUTELY NECESSARY IN SECOND LEVEL ("DOWNSTREAM") PROJECTS. STANDARDS ARE ALSO SET FOR THE EVALUATION BY GOVERNMENT INVESTMENT INCENTIVE AGENCIES (E.G., CDI, BNDE) OF CAPITAL GOODS PROJECTS: AN EXCESSIVE NUMBER OF COMPETITORS AS WELL AS A MONOPOLY SITUATION SHOULD BE AVOIDED; PREFERENCE SHOULD BE GIVEN TO CONSORTIA UNDER BRAZILIAN LEADERSHIP; GOVERNMENT PROJECTS THAT INVOLVE FOREIGN EQUIPMENT SHOULD FIRST HAVE THEIR NATIONAL COMPONENT ALLOCATED AND THEN SUBMIT THE REMAINDER TO INTERNATIONAL BIDDING.

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FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC PRIORITY 0922  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

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5. BRAZILIAN ENTREPRENEURIAL REACTION TO THE NEW MEASURES WAS GENERALLY QUITE FAVORABLE. THERE WAS, HOWEVER, CRITICISM OF THE 25 PERCENT (OF NET PROFIT) DIVIDEND REQUIREMENT FOR PARTICIPATION IN THE PROCAP PROGRAM AND ALSO SOME UNEASINESS ABOUT THE IMPLICATIONS OF THE GOVERNMENT'S ACQUIRING LARGE BLOCKS OF STOCK IN BRAZILIAN COMPANIES. SUCH A DEVELOPMENT EVENTUALLY COULD MEAN MORE RATHER THAN LESS STATE CONTROL IN CERTAIN ECONOMIC SECTORS, THE PRIVATE SECTOR FEARS. ANOTHER POINT RAISED WAS THAT, SINCE MOST SMALL-AND MEDIUM-SIZED BRAZILIAN FIRMS ARE NOT OPEN-CAPITAL COMPANIES, THEY WILL NOT RECEIVE ANY BENEFITS FROM THE NEW MEASURES. THE GOVERNMENT, HOWEVER, HAS

PROMISED TO INSTITUTE ADDITIONAL MEASURES WITHIN THE  
NEXT 30 DAYS TO BENEFIT THESE SMALLER COMPANIES.

6. COMMENTS FOLLW BY SEPTTEL.

7. CONGEN RIO PREPARED THIS TELEGRAM.  
CRIMMINS

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## Message Attributes

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